



Hotel Occupancy Tax - Wyndham Hotel Audit

Issued by the
Internal Audit Office
August 31, 2009

**City of El Paso
Internal Audit Office
Hotel Occupancy Tax - Wyndham Hotel Audit**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Wyndham Hotel's collection and remittance of Municipal Hotel Occupancy Taxes to the City of El Paso. Based on the results of the audit, one (1) finding was identified.

Listed below is a summary of the finding identified in this report:

1. 435 Municipal Hotel Occupancy Tax Exemption transactions for the months of July, August, and September 2008 were tested. Based on the testing results, 42 out of the 435 transactions (9.7%), totaling \$1,858.74 in City Hotel Occupancy Tax Exemptions, were not eligible for the exemption as outlined in Chapter 351 of the Texas Tax Code. The following is a summary of the ineligible transactions:
 - 26 out of 42 transactions (61.90%), totaling \$804.65, were ineligible to receive the exemption due to non-exempt organizations, improperly completed tax exemption certificates, or non-exempt stays.
 - 15 out of 42 transactions (35.71%), totaling \$996.03, were missing tax exemption certificates.
 - One out of 42 transactions (2.38%), totaling \$58.06, granted the incorrect hotel occupancy tax exemption to the guest.

For a detailed explanation of the finding please refer to the body of this Audit Report.

**City of El Paso
Internal Audit Office
Hotel Occupancy Tax - Wyndham Hotel Audit**

BACKGROUND

The City of El Paso currently imposes a 7% Municipal Hotel Occupancy Tax on the cost of hotel accommodations. Hotels collect the Hotel Occupancy Tax from its guests and then remit the tax to the City on a quarterly basis. During 2008, \$8,530,979.58 in Hotel Occupancy Taxes was remitted to the City of El Paso by approximately 89 hotels. The Wyndham Hotel remitted Hotel Occupancy Taxes in the amounts of \$372,898.05 in 2008 and \$361,391.51 in 2007.

The Wyndham Hotel is one of several full service hotels within the Airport property that provides lodging accommodations, restaurant and lounge services, and meeting rooms, including a swimming pool with a waterslide. Spokane Equities has operated the hotel located at 2027 Airway Blvd. since September 29, 1987. Initially the hotel was operated under a franchise affiliation with Hilton Hotels Corporation and on January 1, 2007, Spokane Equities changed franchise affiliation to the Wyndham Worldwide group. As of that date, the hotel operated under the lease agreement as the Wyndham El Paso Airport Hotel and Water Park.

The City of El Paso's Internal Audit Office has begun the process of conducting Municipal Hotel Occupancy Tax audits at selected hotels in the El Paso area. The audit at the Wyndham Hotel is the first of such Municipal Hotel Occupancy Tax audits to be conducted.

AUDIT OBJECTIVES

The objectives of this audit were to determine if the Wyndham Hotel has collected and remitted Municipal Hotel Occupancy Taxes to the City of El Paso in accordance with applicable State and City regulations.

AUDIT SCOPE

This was a limited scope audit and included Municipal Hotel Occupancy Tax transactions from January 1, 2008 through December 31, 2008. The Wyndham's fiscal year is based on a calendar year from January 1st through December 31st.

AUDIT METHODOLOGY

To achieve our audit objectives we conducted interviews with City of El Paso staff and Wyndham Hotel staff. We compared criteria under Texas State law and City ordinances related to Municipal Hotel Occupancy Tax exemptions against completed tax exemption forms. We recalculated reported Hotel Occupancy Taxes; performed tests of selected transactions; reviewed daily revenue reports; and performed reviews of Municipal Hotel Occupancy Tax exemption documentation.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

**City of El Paso
Internal Audit Office
Hotel Occupancy Tax - Wyndham Hotel Audit**

FINDINGS

The following finding relates to the collection and remittance of Municipal Hotel Occupancy Taxes to the City of El Paso by the Wyndham Hotel for the 2008 3rd Quarter only, which included the months of July, August, and September 2008. Extrapolation to other months within the Wyndham's fiscal year was not made; therefore, any tax liability identified is limited to the period stated above.

Finding 1

Ineligible Municipal Hotel Occupancy Tax Exemptions

A total of 435 City Hotel Occupancy Tax Exemption transactions were tested for the July, August, and September 2008. Based on the testing results, 42 out of the 435 transactions (9.7%) totaling \$1,858.74 in City hotel occupancy tax exemptions were not eligible for the exemption as outlined in Chapter 351 (Municipal Hotel Occupancy Taxes) of the Texas Tax Code. The following is a summary of the 42 ineligible transactions:

# of Ineligible Tax Exempt Transactions	% of Ineligible Tax Exempt Transactions	Amount of Ineligible Tax Exemptions	Description
15	35.7%	\$ 514.78	Organizations were not exempt from Municipal Hotel Occupancy Taxes. These included Texas State agencies, Texas institutions of higher education, and government contractors.
10	23.8%	\$ 283.08	Hotel Occupancy Tax Exemption Certificates were not properly completed. The certificates were missing the organization's name, guest name, guest signature, or had a different guest name.
1	2.4%	\$ 6.79	Municipal Hotel Occupancy Tax exemption was granted for a night that the guest specified was not tax exempt.
15	35.7%	\$ 996.03	Hotel Occupancy Tax Exemption Certificates could not be located in Wyndham Hotel files.
1	2.4%	\$ 58.06	Incorrect tax exemption amount was granted.
42	100.0%	\$ 1,858.74	Total Ineligible Municipal Hotel Occupancy Tax Exemptions for the period July through September 2008

**City of El Paso
Internal Audit Office
Hotel Occupancy Tax - Wyndham Hotel Audit**

Finding 1 (Cont.)

The City of El Paso is owed \$1,858.74 plus penalties and interest from the due date of October 30, 2008 to August 31, 2009. The calculation for penalties and interest is shown below:

Amount of Ineligible Municipal Hotel Occupancy Tax Exemptions for the period July to September 2008	\$ 1,858.74
Penalty: (\$1,858.74 X 5% X 2 months) November & December 2008	\$ 185.87
Interest: [(\$1,858.74 X 0.0167%) X 243 Days] January 1, 2009 - August 31, 2009	\$ 75.43
Net Amount Due to the City	\$ 2,120.04

(Note: Penalty and interest percentages are outlined in Chapter 3.12 of the El Paso Municipal Code.)

Recommendation

The Wyndham Hotel should ensure the following before granting a tax exemption for the Municipal Hotel Occupancy Tax:

- Organizations or individuals are eligible for exemption from Municipal Hotel Occupancy Taxes
- Hotel Occupancy Tax Exemption Certificates are properly completed and maintained on file
- Tax exemption amounts are accurate

The Wyndham Hotel should remit \$2,120.04 due to the City for ineligible Municipal Hotel Occupancy Tax exemptions, penalties and interest.

**City of El Paso
Internal Audit Office
Hotel Occupancy Tax - Wyndham Hotel Audit**

INHERENT LIMITATIONS

Because of the inherent limitations of the hotel's procedures and controls as they relate to Municipal Hotel Occupancy Tax exemptions, subjective interpretation of the State of Texas Tax Code and City ordinances, errors or irregularities may occur and not be detected. Also, projections of compliance with Municipal Hotel Occupancy Tax exemptions to future periods are subject to the risk that the hotel's procedures may become non-compliant due to changes in conditions or that the degree of compliance with tax exemption requirements may deteriorate.

CONCLUSION

Based on the results of this audit, we have determined that the Wyndham Hotel has partially complied with applicable State and City regulations related to the collection and remittance of Municipal Hotel Occupancy Taxes to the City of El Paso. While a majority of the transactions for Municipal Hotel Occupancy Tax Exemptions were processed correctly, there were instances of non-compliance involving the following:

- Granting exemptions for the Local Hotel Occupancy Tax to organizations or individuals who were not eligible for the exemption
- Improperly completed and missing support documentation for granted exemptions
- Inaccurate tax exemption amount

The implementation of the recommendations provided in this Audit Report should assist the Wyndham Hotel to achieve full compliance in the collection and remittance of Local Hotel Occupancy Taxes in the future.

We wish to thank the Wyndham Hotel management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File
Edmundo S. Calderón, CIA, CGAP
Chief Internal Auditor

Signature on File
Christine Esqueda, CIA, CGAP
Senior Auditor

Distribution:

Legislative Review Committee for Fiscal Affairs, Management Support, and Internal Audit
Joyce Wilson, City Manager
William F. Studer Jr., Deputy City Manager
Carmen Arrieta-Candelaria, Chief Financial Officer
Rebecca R. Driggs, President, Spokane Equities